

**BOARD OF WATERWORKS AND
ELECTRIC LIGHT AND POWER PLANT TRUSTEES - ATLANTIC, IOWA
D/B/A ATLANTIC MUNICIPAL UTILITIES**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2010 AND 2009

ATLANTIC MUNICIPAL UTILITIES

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ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2010

<u>Trustees</u>	<u>Term Expires</u>
Lawrence E. Turner, Chairperson	April, 2013
Keith C. Stork, Vice-Chairperson	April, 2015
Frank W. Greiner	April, 2015
Sharon L. Winchell	April, 2011
Joyce A. Jensen	April, 2011

Management Personnel

General Manager
Allen J. Bonderman

Comptroller
Steve J. Tjepkes

Director of Electric Operations
Gregory J. Smith

Director of Water Operations
Jon H. Martens

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the accompanying statements of net assets of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2010 and 2009, and the related statements of income, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Municipal Utilities (Electric Department and Water Department) as of December 31, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2011 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Board of Trustees
Atlantic Municipal Utilities

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4d and 31 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The other supplementary information (shown on pages 32 through 42) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronwald Bell, Kuhn + Co. P.C.

Atlantic, Iowa
February 22, 2011



Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2010 and 2009

This section of the Utility's annual Financial Statements presents an analysis of the Utility's financial performance during the calendar year ended December 31, 2010. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into two operating departments, electric and water. This discussion and analysis not only points out the highlights of each department, but also reports and discusses highlights in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2010

The Utility's combined net assets decreased by \$0.2 million, or 0.80%, from \$26.04 million to \$25.83 million. The Electric Department's net assets decreased by \$280,444, or 1.25%, from \$22.41 million to \$22.13 million. The Water Department's net assets increased by \$73,283, or 2.02%, from \$3.631 million to \$3.705 million.

Combined revenues increased by \$0.468 million or 5.39%. Electric Department revenues increased by \$0.369 million, or 4.8%, from \$7.69 million to \$8.06 million. Water Department revenues increased by \$98,845, or 10.0%, from \$0.992 million to \$1.091 million.

Long-term debt (see Table 1) of the two departments decreased. Total combined debt decreased from \$8.266 million in 2009, to \$7.781 million. Electric Department debt was reduced by \$485,000, from \$7.34 million to \$6.85 million. Water Department debt remained level at \$0.93 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements of the Utility report information utilizing generally accepted accounting practices for electric and water utilities. In general, these practices follow the Federal Energy Regulatory Commission's (FERC) prescribed Uniform System of Accounts for the Electric Dept. Practices for the Water Dept. follow suggested guidelines from the National Association of Regulatory Commissioners (NARUC). There are four major reports for each Department.

The *Statements of Net Assets* include all of each Department's assets and liabilities, and provides information about the nature and amounts of investments in resources assets and the obligations to Utility creditors. It also provides the basis for making a variety of financial assessments about the Utility's financial position. Supporting schedules of the Department's debt are included in the "Other Supplementary Information" section of the report.

The *Statements of Income* provide information about each Department's revenues and expenses. This report measures the success of the Department's operations. It can be used to determine whether or not the Department has successfully recovered all its costs through its rates, fees and other forms of revenues. It also provides a measure of the Department's, and Utility's, profitability and creditworthiness. Details of the Department's revenues and expenses are included in the "Other Supplementary Information" section of the report.

The *Statements of Changes in Net Assets* provide information about the equity, or net assets, of the Department, taking into account any transfer of equity to the City of Atlantic.

The *Statements of Cash Flows* provide information about each Department's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes from operations, investments, and financing activities. It indicates where the Department's cash came from, how it was used, and the change in cash balances from the previous fiscal year.

Additional information regarding AMU's financial and operating status are contained in the *Required Supplemental Information*, and *Other Supplementary Information*. These sections of the report provide information including comparisons of budgeted versus actual expenditures, details regarding long-term debt outstanding, and a number of supporting schedules.

The *Comments and Recommendations* section of the report comments on AMU's internal control and compliance with various state statutes.

FINANCIAL ANALYSIS OF THE UTILITY

A summary of the Utility's combined Net Assets is presented in *Table 1, Condensed Statement of Net Assets* below. The summary combines the net assets of both the electric and water departments, and also indicates each Department's assets separately.

Table 1 Condensed Statements of Net Assets												
(In thousands of dollars)	Electric Dept.				Water Dept.				Combined			
			Dollar	Percent			Dollar	Percent			Dollar	Percent
	2010	2009	Change	Change	2010	2009	Change	Change	2010	2009	Change	Change
Current and Other Assets	\$7,527.6	\$9,230.0	-\$1,702.5	-18.4%	\$1,493.8	\$1,172.4	\$321.4	27.4%	\$9,021.4	\$10,402.5	\$1,381.1	-13.3%
Capital Assets	\$22,954.1	\$21,982.7	\$971.3	4.4%	\$3,730.8	\$3,909.1	-\$178.3	-4.6%	\$26,684.8	\$25,891.8	\$793.0	3.1%
Total Assets	\$30,481.6	\$31,212.8	-\$731.2	-2.3%	\$5,224.6	\$5,081.5	\$143.1	2.8%	\$35,706.2	\$36,294.3	-\$588.1	-1.6%
Long-Term Debt	\$6,850.0	\$7,335.0	-\$485.0	-6.6%	\$930.9	\$930.9	\$0.0	0.0%	\$7,780.9	\$8,265.9	-\$485.0	-5.9%
Other Liabilities	\$1,505.2	\$1,470.9	\$34.3	2.3%	\$588.9	\$519.1	\$69.8	13.4%	\$2,094.1	\$1,990.0	\$104.1	5.2%
Total Liabilities	\$8,355.2	\$8,805.9	-\$450.7	-5.1%	\$1,519.8	\$1,450.0	\$69.8	4.8%	\$9,875.0	\$10,255.9	-\$380.9	-3.7%
Total Net Assets	\$22,126.4	\$22,406.9	-\$280.5	-1.3%	\$3,704.8	\$3,631.5	\$73.3	2.0%	\$25,831.2	\$26,038.4	-\$207.2	-0.8%
Total Liabilities & Net Assets	\$30,481.6	\$31,212.8	-\$731.2	-2.3%	\$5,224.6	\$5,081.5	\$143.1	2.8%	\$35,706.2	\$36,294.3	-\$588.1	-1.6%

Electric Department

2010 was an eventful year for AMU's electric department. In terms of capital improvements, in addition to continuing additions at Walter Scott Unit 3 (WS3), two major projects in Atlantic were completed. A second transmission substation transformer, which converts 161,000 volt power from MidAmerican Energy's transmission grid to 69,000 volts, was added at AMU's Spruce Substation. The existing substation only had one transformer of that type, which was approximately thirty years old. The addition of the new transformer, along with accompanying breakers and solid-state protective relaying, will provide improved reliability, as well as capacity for any load growth on AMU's system in the next twenty years or more. AMU also replaced several older oil circuit breakers with state-of-the-art SF6 (sulphur hexafluoride) breakers, which operate much more quickly and provide better protection. The total cost of these improvements was about \$1.7 million.

The other major project was the replacement of all circuit breakers and protective relaying at AMU's Chestnut Substation, as well as new battery banks, and a 69,000 volt circuit interrupter which protects the transformer there. The Chestnut Substation improvements cost about \$400,000.

Capital Assets increased by \$971,317, or 4.4%. All of AMU's capital additions were funded with cash from general operating reserves, and no additional debt was issued.

Special Purpose Funds, Current and Other Assets, and Deferred Expenses decreased by \$1,702,486, or 18.4%, due to use of cash for capital improvements. Total Assets decreased from \$31.21 million to \$30.48 million, or 2.3%.

Total long-term debt of the Electric Department decreased from \$7,335,000 to \$6,850,000, a total of \$485,000. Current and Other Liabilities increased from \$1,470,901 to \$1,505,176, a change of \$34,275, or 2.3%.

Operating Revenue for the Electric Department increased by \$530,987, or 6.8%. Energy sales to retail customers increased by 6,042,683 KWH, or 5.92%. Revenues from those sales increased by \$582,774, or 10.29%. Wholesale sales to other utilities were slightly higher, increasing from \$1,468,112 to \$1,593,293, an increase of 8.53%. The value of energy in the wholesale markets is still extremely low, due to the national and global economic recession.

Operating Expenses for the Electric Department increased, from \$7,398,651 the prior year, to \$8,018,266 in 2010. Increases in expenses were due to a number of things, including increases in coal, operating and maintenance, depreciation, and transmission costs. Administrative costs related to the real-time energy markets of the Midwest Independent System Operator (MISO) also were a factor. A major ice storm in January of 2010 also contributed to higher than normal maintenance costs, the majority of which were offset by assistance received from state and federal disaster funds.

Net Income decreased from \$291,781 to \$41,410, a decrease of \$250,371. This decrease in net income was attributable to continued low revenues from sales of surplus energy in the wholesale market, coupled with higher purchased power and transmission costs.

Total Assets of the electric utility decreased by \$731,169 to \$30.482 million. Net assets decreased by \$280,444, to \$22.126 million. Transfers to the City of Atlantic totaled \$321,854.

Water Department

AMU did not undertake any significant new capital projects during 2010. Due to depreciation of existing assets, there was a reduction of \$178,287 in Capital Assets. The minor capital asset additions that occurred were funded from cash on hand.

Special Purpose Funds, Current and Other Assets and Deferred Costs increased by \$321,363, to \$1,493,805. Total Assets increased from \$5.08 million to \$5.22 million, or 2.82%.

Total long-term debt of the Water Department remained level at \$930,855. Current and Other Liabilities increased from \$519,139 to \$588,932, a change of \$69,793, or 13.44%, mostly attributable to moneys collected on behalf of the City's sewer utility.

All cash requirements of the Water Department were provided from cash flows, and no new debt was issued during

the reporting period. In December, 2009, AMU's Electric Department called the outstanding water revenue bonds, and is providing an internal loan to the Water Department on the same terms. Due to a need to install a backwash detention system, principal payments that would have been due December 1, 2010 were deferred by the AMU Board, to avoid issuing debt for a 2011 project, which involves installation of a backwash detention system at the treatment plant. Interest payments will continue to be made on June 1 and December 1 of each year, and principal payments will resume once the water department's cash flow is adequate.

Operating Revenue for the Water Department increased by 9.55%, with revenues totaling \$1,112,096 in 2010, as compared to \$1,015,171 in 2009. Sales of water declined by 2.35%, with a total of 237 million gallons billed.

Net Income for the year was a gain of \$144,964, as opposed to a loss in 2009 of \$3,831. The improved performance was due to increases in water rates, and a reduction in staffing of one FTE, through attrition related to the retirement of a long-term water department employee.

Net Assets of the water utility increased by \$73,283, to \$3.70 million. (Note: Includes Contributions In Aid Of Construction and amortizations of said contributions). Transfers to the City of Atlantic totaled \$78,146.

A summary of the Utility's combined Operating Revenues, Expenses, Net Income and Net Assets is presented in *Table 2 Condensed Statements of Income and Changes in Net Assets*, below. The summary combines the operating data of both the electric and water departments, and also summarizes each Department's operations separately.

Table 2										
Condensed Statements of Income and Changes in Net Assets										
(In thousands of dollars)	Electric Dept.			Water Dept.			Combined			
	2010	2009	Dollar Change	2010	2009	Dollar Change	2010	2009	Dollar Change	Percent Change
Operating Revenues	\$8,287.7	\$7,756.7	\$531.0	\$1,112.1	\$1,015.2	\$96.9	\$9,399.8	\$8,771.9	\$627.9	7.16%
Other Income (Deductions)	-\$228.0	-\$66.3	-\$161.7	-\$21.3	-\$23.3	\$2.0	-\$249.30	-\$89.6	-\$159.7	-178.23%
Total Revenue	\$8,059.7	\$7,690.4	\$369.3	\$1,090.8	\$991.9	\$98.9	\$9,150.5	\$8,682.3	\$468.2	5.39%
Depreciation	\$1,366.4	\$1,161.2	\$205.2	\$223.1	\$227.1	-\$4.0	\$1,589.5	\$1,388.3	\$201.2	14.49%
Other Operating Expenses	\$6,651.9	\$6,237.5	\$414.4	\$722.7	\$768.6	(\$45.9)	\$7,374.6	\$7,006.1	\$368.5	5.26%
Total Operating Expense	\$8,018.3	\$7,398.7	\$619.6	\$945.8	\$995.7	-\$49.9	\$8,964.1	\$8,394.4	\$569.7	6.79%
Net Income	\$41.4	\$291.8	(\$250.4)	\$145.0	(\$3.8)	\$148.8	\$186.4	\$287.9	-\$101.5	-35.26%
Net Assets										
Beginning Balance	\$22,406.9	\$22,420.7	(\$13.8)	\$3,631.5	\$3,718.4	(\$86.9)	\$26,038.4	\$26,139.1	(\$100.7)	-0.39%
Net Income	\$41.4	\$291.8	(\$250.4)	\$145.0	(\$3.8)	\$148.8	\$186.4	\$288.0	(\$101.6)	-35.28%
Less: Distribution to the City	\$321.9	\$305.6	\$16.3	\$78.1	\$84.4	(\$6.3)	\$400.0	\$390.0	\$10.0	2.56%
Plus: *Adjustments				\$6.5	\$1.3	\$5.1	\$6.5	\$1.3	\$5.1	392.31%
Ending Balance	\$22,126.4	\$22,406.9	(\$280.5)	\$3,704.8	\$3,631.5	\$73.3	\$25,831.2	\$26,038.4	(\$207.2)	-0.80%

*NOTE: "Adjustments" to Water Dept. Net Assets includes Contributions in Aid of Construction, and current amortizations of same.

OUTLOOK FOR THE FUTURE

2010 was a year of continued and significant economic turmoil, and perhaps the most significant recessionary period in U.S. history. Despite efforts by the federal government to stimulate the economy, unemployment reached double digit levels, while literally thousands of businesses reduced operations, closed, or left the U.S. The single bright spot in the economy has been the agricultural sector, which is likely one of the reasons that conditions in Iowa are not quite as bleak as other areas of the country.

The year was the first full year that AMU was involved in the real-time energy markets operated by the Midwest Independent System Operator (MISO). The most significant lesson learned has been that it is going to take a long time to understand and be able to assess the benefits and downsides of living in the MISO world. AMU recognizes that some costs have increased due to involvement in MISO, but that expenses not related to MISO, and decreased revenues due to economic conditions, have caused more negative effects.

Rates for electric service were increased effective February 1, 2010, but increased costs exceeded projections, and eroded the positive effects of the new additional revenues. AMU's Board and Management made a decision late in 2010 to not increase rates until January 1, 2012, barring any unforeseen major change in cost. AMU wants to gain additional experience with MISO, and also engage with our customers about the outlook for higher energy costs, during 2011. The delay will also provide some time to examine and develop options for new energy efficiency and demand-side management programs. General reserves will be used as rate stabilization funds. Management will continue to look for ways to reduce expenses, including staff reductions, elimination of waste, and improved efficiencies.

W

AMU's water utility had another rather uneventful year, and is focused on repayment of all outstanding debt before undertaking major capital additions. It is likely that revenue bond financing will be used to fund some replacement of mains in AMU's water distribution system, once outstanding debt is all retired.

Late in 2009 a "sanitary inspection" was performed by the Iowa Department of Natural Resources. The inspection report indicated that AMU was in violation of regulations which prohibited the discharge of backwash water (water used to flush our filters at the water treatment plant) into navigable waters without a permit. The end result of this is that in the spring of 2011, AMU will construct a backwash collection tank, into which we will pump all backwash water. The backwash water will then flow into the City of Atlantic's wastewater collection system, so that it can be treated at their treatment plant.

As was the case with the electric utility, the Board approved increased rates for water service, beginning with bills issued on and after February 1, 2010. Management expects that regular increases in rates for water will likely be needed over the next several years. Rates for water in Atlantic are still expected to remain competitive with similar utilities in Iowa.

Generally, the financial position of the water utility is good, as compared to other comparable-sized water systems in Iowa. Adequate reserves exist to provide for minor emergencies and other unanticipated events. Management and the Board are committed to maintaining rates adequate to meet the cash requirements of the utility, while meeting the needs of the Atlantic community.

Contacting Financial Management

This financial report is designed to provide AMU's ratepayers and creditors with a general overview of Atlantic Municipal Utilities' finances and operations. If you have questions about this report, contact AMU's Comptroller at AMU, P.O. Box 517; 15 West Third Street; Atlantic, Iowa 50022; or e-mail stjepkes@amu1.net ; or call 712-243-1395.

The General Manager can be contacted at the same address and phone, or by e-mail at abonderman@amu1.net.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Net Assets
December 31,

ASSETS

	<u>2010</u>	<u>2009</u>
Utility Plant :		
Depreciable capital assets	\$ 20,019,763	\$ 14,568,987
Non-depreciable capital assets	<u>2,934,297</u>	<u>7,216,558</u>
Total utility plant	22,954,060	21,785,545
Special Purpose Funds:		
Revenue bond funds	1,450,549	1,440,005
Board designated funds	<u>1,733,351</u>	<u>1,761,384</u>
Total special purpose funds	3,183,900	3,201,389
Current Assets:		
Cash	398,894	345,918
Operating and capital reserves	1,002,638	2,987,134
Receivables, less allowance for doubtful accounts (\$30,000 in 2010, \$27,000 in 2009)	613,336	695,427
Other receivables	93,766	3,200
Inventory	793,562	735,010
Prepaid expenses	37,874	40,963
Current due from Water Department	<u>207,570</u>	<u>207,570</u>
Total current assets	3,147,640	5,015,222
Other Assets:		
Due from Water Department:		
Non-interest bearing note	495,855	495,855
Interest bearing note	435,000	435,000
Transmission line investment	194,152	197,198
Deferred costs	<u>71,009</u>	<u>82,576</u>
Total other assets	<u>1,196,016</u>	<u>1,210,629</u>
	<u>\$ 30,481,616</u>	<u>\$ 31,212,785</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Long-Term Debt, less current maturities	\$ 6,850,000	\$ 7,335,000
Current Liabilities:		
Current maturities of long-term debt	485,000	465,000
Accounts payable	482,442	488,580
Accrued employee compensation	138,000	123,000
Accrued payroll taxes and withholdings	12,932	12,047
Accrued property taxes	114,000	127,000
Other accrued taxes	11,038	12,386
Accrued interest	<u>73,216</u>	<u>77,401</u>
Total current liabilities	1,316,628	1,305,414
Other Liabilities:		
Consumer deposits	74,548	68,487
Reserve for employees' retirement	<u>114,000</u>	<u>97,000</u>
Total other liabilities	<u>188,548</u>	<u>165,487</u>
Total liabilities	8,355,176	8,805,901
Net Assets:		
Restricted - expendable	1,450,549	1,440,005
Invested in capital assets net of related debt	15,656,024	14,001,749
Unrestricted	<u>5,019,867</u>	<u>6,965,130</u>
Total net assets	<u>22,126,440</u>	<u>22,406,884</u>
	<u>\$ 30,481,616</u>	<u>\$ 31,212,785</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Income
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Operating Revenue:		
Retail electricity sales	\$ 5,906,646	\$ 5,350,940
Services provided to the City	339,233	312,165
Sales to other utilities	<u>1,593,293</u>	<u>1,468,112</u>
Total sale of electricity	7,839,172	7,131,217
Other operating revenue	<u>448,531</u>	<u>625,499</u>
Total operating revenue	8,287,703	7,756,716
Operating Expenses:		
Electric production	2,214,369	1,727,064
Purchased power	1,509,082	1,797,915
Transmission	934,384	731,271
Distribution	755,268	748,233
Administrative and accounting	1,238,793	1,232,985
Provision for depreciation	<u>1,366,370</u>	<u>1,161,183</u>
Total operating expenses	8,018,266	7,398,651
Income from Operations	269,437	358,065
Other Income and (Deductions):		
Income from investments	87,336	165,128
Interest expense on revenue bonds	(297,048)	(219,690)
Gain (loss) on disposal of equipment	(4,555)	3,576
Other interest expense	(2,193)	(2,714)
Amortization of bond issue costs	<u>(11,567)</u>	<u>(12,584)</u>
Other deductions, net	<u>(228,027)</u>	<u>(66,284)</u>
Net Income	<u>\$ 41,410</u>	<u>\$ 291,781</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Changes in Net Assets
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Balance, Beginning	\$ 22,406,884	\$ 22,420,670
Net Income	41,410	291,781
Distribution to the City	<u>(321,854)</u>	<u>(305,567)</u>
Balance, Ending	<u>\$ 22,126,440</u>	<u>\$ 22,406,884</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 7,481,147	\$ 6,734,248
Cash paid to suppliers	(5,467,940)	(5,198,616)
Cash paid to employees	(1,164,427)	(1,191,952)
Other operating revenue	<u>446,746</u>	<u>622,474</u>
Net cash provided by operating activities	1,295,526	966,154
Cash flows from noncapital financing activities:		
Consumer deposits, net	6,061	2,525
Interest paid	<u>(2,193)</u>	<u>(2,714)</u>
Net cash provided by (used in) noncapital financing activities	3,868	(189)
Cash flows from capital and related financing activities:		
Principal payments	(465,000)	(760,000)
Interest paid on revenue bonds	(301,233)	(325,015)
Capital expenditures	<u>(2,572,552)</u>	<u>(2,058,129)</u>
Net cash used in capital and related financing activities	(3,338,785)	(3,143,144)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	(2,292,763)	(1,263,601)
Proceeds	1,120,947	3,346,926
Operating and capital reserves		
Acquisitions	(2,906,080)	(1,299,873)
Proceeds	4,890,576	2,301,511
Investment in Water interest bearing note	--	(640,000)
Transmission line investment	3,046	(197,198)
Income from investments	<u>87,336</u>	<u>162,558</u>
Net cash provided by investing activities	<u>903,062</u>	<u>2,410,323</u>
Net increase (decrease) in cash	(1,136,329)	233,144
Cash at beginning of year	<u>2,272,383</u>	<u>2,039,239</u>
Cash at end of year	<u>\$ 1,136,054</u>	<u>\$ 2,272,383</u>

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ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 398,894	\$ 345,918
Cash in special purpose funds	<u>737,160</u>	<u>1,926,465</u>
Total cash	<u>\$ 1,136,054</u>	<u>\$ 2,272,383</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 269,437	\$ 358,065
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	1,366,370	1,161,183
Materials returned to stock	785	5,030
Uncollectible accounts	12,102	9,006
Reserve for employees' retirement	17,000	4,000
Distribution to City	(321,854)	(305,567)
Change in assets and liabilities		
Receivables	(20,577)	(87,829)
Inventory	(58,552)	23,779
Prepaid expenses	3,089	(2,864)
Accounts payable, trade	26,189	(224,001)
Accrued employee compensation	15,000	15,800
Accrued payroll taxes and withholdings	885	9,133
Accrued property taxes	(13,000)	1,000
Other accrued taxes	(1,348)	(581)
Total adjustments	<u>1,026,089</u>	<u>608,089</u>
Net cash provided by operating activities	<u>\$ 1,295,526</u>	<u>\$ 966,154</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Net Assets
December 31,

ASSETS

	<u>2010</u>	<u>2009</u>
Utility Plant:		
Depreciable capital assets	\$ 3,654,937	\$ 3,853,233
Non-depreciable capital assets	<u>75,846</u>	<u>55,837</u>
Total utility plant	3,730,783	3,909,070
Special Purpose Funds:		
Board designated funds	967,363	768,528
Memorial fund	<u>3,145</u>	<u>3,140</u>
Total special purpose funds	970,508	771,668
Current Assets:		
Cash	235,283	152,607
Receivables, less allowance for doubtful accounts (\$10,000 in 2010, \$9,000 in 2009)	200,450	159,342
Materials and supplies inventory	75,724	76,006
Prepaid expenses	<u>9,549</u>	<u>8,202</u>
Total current assets	521,006	396,157
Deferred Costs	<u>2,291</u>	<u>4,617</u>
	<u>\$ 5,224,588</u>	<u>\$ 5,081,512</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Long-Term Debt, less current maturities:		
Due to Electric Department	\$ 930,855	\$ 930,855
Current Liabilities:		
Current due to Electric Department	207,570	207,570
Accounts payable:		
Trade	14,721	14,489
Due to City - sewer	246,451	184,774
Accrued employee compensation	47,000	46,000
Accrued payroll taxes and withholdings	2,858	2,650
Other accrued taxes	4,137	4,341
Total current liabilities	<u>522,737</u>	<u>459,824</u>
Other Liabilities:		
Consumer deposits	17,195	16,315
Reserve for employees' retirement	49,000	43,000
Total other liabilities	<u>66,195</u>	<u>59,315</u>
Total liabilities	1,519,787	1,449,994
Net Assets:		
Contributions in aid of construction	788,774	798,516
Restricted - expendable	3,145	3,140
Invested in capital assets, net of related debt	2,590,569	2,769,405
Unrestricted	322,313	60,457
Total net assets	<u>3,704,801</u>	<u>3,631,518</u>
	<u>\$ 5,224,588</u>	<u>\$ 5,081,512</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Income
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Operating Revenue:		
Sale of water:		
Residential	\$ 668,463	\$ 604,680
Commercial	348,899	309,079
Services provided to the City	<u>84,912</u>	<u>92,098</u>
Total sale of water	1,102,274	1,005,857
Other operating revenue	<u>9,822</u>	<u>9,314</u>
Total operating revenue	1,112,096	1,015,171
Operating Expenses:		
Source of supply	36,512	45,795
Pumping	41,672	42,243
Water treatment	115,933	121,475
Distribution	215,102	227,781
Administrative and accounting	313,485	331,341
Provision for depreciation	<u>223,084</u>	<u>227,103</u>
Total operating expenses	945,788	995,738
Income from Operations	166,308	19,433
Other Income and (Deductions):		
Income from investments	12,514	20,070
Interest expense on note and bonds	(30,833)	(39,449)
Other interest expense	(699)	(810)
Amortization of bond issue costs	<u>(2,326)</u>	<u>(3,075)</u>
Other deductions, net	<u>(21,344)</u>	<u>(23,264)</u>
Net Income (Loss)	<u>\$ 144,964</u>	<u>\$ (3,831)</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Changes in Net Assets
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Balance, Beginning	\$ 3,631,518	\$ 3,718,442
Net Income (Loss)	144,964	(3,831)
Contributions in Aid of Construction	6,465	1,340
Distribution to the City	<u>(78,146)</u>	<u>(84,433)</u>
Balance, Ending	<u>\$ 3,704,801</u>	<u>\$ 3,631,518</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 972,069	\$ 885,442
Cash paid to suppliers	(214,655)	(278,357)
Cash paid to employees	(426,764)	(421,551)
Other operating revenue	<u>9,113</u>	<u>8,536</u>
Net cash provided by operating activities	339,763	194,070
Cash flows from noncapital financing activities:		
Consumer deposits, net	880	890
Interest paid	<u>(699)</u>	<u>(810)</u>
Net cash provided by noncapital financing activities	181	80
Cash flows from capital and related financing activities:		
Principal payments	--	(200,000)
Interest paid on revenue bonds	(30,833)	(40,232)
Capital expenditures	(46,574)	(45,708)
Contributions in aid of construction	<u>6,465</u>	<u>1,340</u>
Net cash used in capital and related financing activities	(70,942)	(284,600)
Cash flows from investing activities:		
Special purpose fund investments:		
Acquisitions	(300,107)	(774,693)
Proceeds	495,041	909,467
Income from investments	<u>12,514</u>	<u>20,070</u>
Net cash provided by investing activities	<u>207,448</u>	<u>154,844</u>
Net increase in cash	476,450	64,394
Cash at beginning of year	<u>300,982</u>	<u>236,588</u>
Cash at end of year	<u>\$ 777,432</u>	<u>\$ 300,982</u>
Reconciliation of cash to the statements of net assets:		
Cash in current assets	\$ 235,283	\$ 152,607
Cash in special purpose funds	<u>542,149</u>	<u>148,375</u>
Total cash	<u>\$ 777,432</u>	<u>\$ 300,982</u>

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ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 166,308	\$ 19,433
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	223,084	227,103
Uncollectible accounts	4,894	4,184
Reserve for employees' retirement	6,000	6,000
Distribution to City	(78,146)	(84,433)
Change in assets and liabilities		
Receivables	(46,002)	(29,095)
Materials and supplies inventory	282	2,940
Prepaid expenses	(1,347)	93
Accounts payable:		
Trade	2,009	(6,251)
Due to City - sewer	61,677	49,254
Accrued employee compensation	1,000	2,900
Accrued payroll taxes and withholdings	208	1,922
Other accrued taxes	(204)	20
Total adjustments	<u>173,455</u>	<u>174,637</u>
Net cash provided by operating activities	<u>\$ 339,763</u>	<u>\$ 194,070</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Board of Waterworks and Electric Light and Power Plant Trustees - Atlantic, Iowa operates under the name, Atlantic Municipal Utilities (Utilities or Utility). It is made up of two enterprise funds (departments) and is a component unit of the City of Atlantic, Iowa (City). It was instituted to provide water and electric service to residents of the City and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

The financial positions and operations of the two departments are accounted for and reported separately in these financial statements. The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Measurement Focus and Basis of Accounting

The Utilities maintain their financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

4. Utility Plant and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

Water contributions in aid of construction represents the actual cost of property contributed to the water utility and nonrefundable payments received from consumers which are used to partially offset the cost of the construction of additional plant. The cost of depreciation on plant acquired through this process is included in depreciation expense. The balance in water contributions in aid of construction is amortized over a period equal to the estimated useful life of the related contributed asset.

5. Accounts Receivable and Revenue Recognition

Billings for electric and water revenues are rendered monthly on a cyclical basis. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

6. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies and a weighted average basis for fuel.

7. Investments

Investments are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the reported sales price and current exchange rates at year end. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other income when earned.

8. Deferred Costs

Costs related to the issuance of debt and special projects are recorded as deferred costs when incurred. Such costs are amortized over the term of the outstanding debt or the estimated useful life in the case of special projects.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The memorial fund is used to accumulate the unused portion of funds restricted by donors for a specific purpose. The electric revenue bond funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

11. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Atlantic city limits. The property taxes are recorded as of the date they become a liability.

12. Cash Equivalents

For purposes of the statement of cash flows, the Atlantic Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

13. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs.

ATLANTIC MUNICIPAL UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Net Assets

Net assets of the Utilities are classified in four components. *Contributions in aid of construction* consist of the unamortized cost of contributions from outside parties for construction purposes. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Utilities, including amounts deposited with trustees as required by revenue bond indentures, discussed in Notes G and H. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt, restricted, or contributions in aid of construction*.

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA

The Utilities provide electric and water services to the City in exchange for a partial payment. However, any payment received must be contributed back to the City at the time of receipt. Any excess of the cost and normal charge for services provided over amounts received from the City is charged to a franchise requirement expense account, which is included in administrative expenses on the financial statements.

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Atlantic. This service is provided for a minimal charge to the City.

Following is a summary of activity between the Utilities and City during the year and amounts due to or receivable from the City at year end:

<u>Electric Department</u>	<u>2010</u>	<u>2009</u>
Fees for Services Provided to City	\$ 339,233	\$ 312,165
Payment From and Distribution to City	<u>321,854</u>	<u>305,567</u>
Franchise Requirement	<u>\$ 17,379</u>	<u>\$ 6,598</u>
<u>Water Department</u>	<u>2010</u>	<u>2009</u>
Fees for Services Provided to City	\$ 84,912	\$ 92,098
Payment From and Distribution to City	<u>78,146</u>	<u>84,433</u>
Franchise Requirement	<u>\$ 6,766</u>	<u>\$ 7,665</u>
Sewer Fees Collected for City	<u>\$ 1,129,204</u>	<u>\$ 807,714</u>
Charge to City for Sewer Billing Service	<u>\$ 3,724</u>	<u>\$ 2,692</u>
Account Payable to City	<u>\$ 246,451</u>	<u>\$ 184,774</u>

ATLANTIC MUNICIPAL UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

NOTE C - TRANSACTIONS BETWEEN ELECTRIC AND WATER DEPARTMENTS

Certain administrative costs are split between the Electric and Water Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric and Water Departments at December 31:

	<u>2010</u>	<u>2009</u>
Electric sales to Water	\$ <u>28,181</u>	\$ <u>25,701</u>
Water sales to Electric	\$ <u>401</u>	\$ <u>338</u>
Interest income (Electric) and expense (Water) during the year	\$ <u>30,833</u>	\$ <u>2,570</u>
Non-interest bearing note due to Electric from Water Department	\$ <u>495,855</u>	\$ <u>495,855</u>
Interest bearing note due to Electric from Water Department	\$ 640,000	\$ 640,000
Less current portion	<u>205,000</u>	<u>205,000</u>
	<u>\$ 435,000</u>	<u>\$ 435,000</u>
Current portion of interest bearing note due to Electric from Water Department	\$ 205,000	\$ 205,000
Interest due to Electric from Water Department	<u>2,570</u>	<u>2,570</u>
Current due to Electric from Water Department	<u>\$ 207,570</u>	<u>\$ 207,570</u>

The Electric Department non-interest bearing note receivable from the Water Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2012. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

At December 1, 2009, the Electric Department paid off the outstanding Capital Loan Notes of the Water Department. In their place, a note receivable from the Water Department was created with the same interest rates and maturity schedule as the Capital Loan Notes (See Note H). The terms of the interest bearing note receivable may be changed at the pleasure of the Utilities Board at any time. During 2010, the Utilities Board decided to defer the note principal payment schedule for one year, allowing the Water Department to accumulate funds to pay for a construction project.

ATLANTIC MUNICIPAL UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net assets are available for the following purposes:

Electric Department

	<u>2010</u>	<u>2009</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,150,549	\$ 1,140,005
Capital improvements	<u>300,000</u>	<u>300,000</u>
Total restricted	<u>\$ 1,450,549</u>	<u>\$ 1,440,005</u>
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	1,000,000	1,000,000
Equipment replacement	150,000	150,000
Employee retirement	150,633	150,000
Funding of bond requirements	<u>82,718</u>	<u>111,384</u>
Total board designated	<u>\$ 1,733,351</u>	<u>\$ 1,761,384</u>

Water Department

	<u>2010</u>	<u>2009</u>
Restricted by donor for well field improvements	<u>\$ 3,145</u>	<u>\$ 3,140</u>
Board Designated for:		
System improvements	\$ 927,363	\$ 728,528
Employee retirement	<u>40,000</u>	<u>40,000</u>
Total board designated	<u>\$ 967,363</u>	<u>\$ 768,528</u>

During the year ended December 31, 2010, the Utilities expended \$ - 0 - (\$267,754 in 2009) of revenue note proceeds on the construction programs.

ATLANTIC MUNICIPAL UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Electric Department's investments at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Invested Funds:		
Government Agencies	\$ 3,435,624	\$ 4,227,861
Other Interest Bearing Accounts	737,160	1,926,465
Interest Receivable	<u>13,754</u>	<u>34,197</u>
Total Investments	<u>\$ 4,186,538</u>	<u>\$ 6,188,523</u>
Special Purpose Funds:		
Restricted	\$ 1,450,549	\$ 1,440,005
Board Designated	<u>1,733,351</u>	<u>1,761,384</u>
Total Special Purpose Funds	<u>3,183,900</u>	<u>3,201,389</u>
Operating and Capital Reserves	<u>1,002,638</u>	<u>2,987,134</u>
Total Investments	<u>\$ 4,186,538</u>	<u>\$ 6,188,523</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Water Department's investments at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Invested Funds:		
Government Agencies	\$ 425,462	\$ 617,688
Other Interest Bearing Accounts	542,149	148,375
Interest Receivable	<u>2,897</u>	<u>5,605</u>
Total Investments	<u>\$ 970,508</u>	<u>\$ 771,668</u>
Special Purpose Funds:		
Restricted	\$ 3,145	\$ 3,140
Board Designated	<u>967,363</u>	<u>768,528</u>
Total Special Purpose Funds	<u>\$ 970,508</u>	<u>\$ 771,668</u>

The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2010 and 2009 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 38,849,447	\$ 6,822,486	\$ 81,787	\$ 45,590,146
Depreciation	<u>24,280,460</u>	<u>1,366,370</u>	<u>76,447</u>	<u>25,570,383</u>
Depreciable Capital Assets, Net	<u>\$ 14,568,987</u>	<u>\$ 5,456,116</u>	<u>\$ 5,340</u>	<u>\$ 20,019,763</u>
Construction in Progress	\$ 6,576,588	\$ 2,540,225	\$ 6,822,486	\$ 2,294,327
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 7,216,558</u>	<u>\$ 2,540,225</u>	<u>\$ 6,822,486</u>	<u>\$ 2,934,297</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE F - CAPITAL ASSETS - Continued

	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 37,698,967	\$ 1,352,105	\$ 201,625	\$ 38,849,447
Depreciation	<u>23,319,448</u>	<u>1,161,183</u>	<u>200,171</u>	<u>24,280,460</u>
Depreciable Capital Assets, Net	<u>\$ 14,379,519</u>	<u>\$ 190,922</u>	<u>\$ 1,454</u>	<u>\$ 14,568,987</u>
Construction in Progress	\$ 5,829,701	\$ 2,169,885	\$ 1,422,998	\$ 6,576,588
Land and Land Rights	<u>569,077</u>	<u>70,893</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 6,398,778</u>	<u>\$ 2,240,778</u>	<u>\$ 1,422,998</u>	<u>\$ 7,216,558</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,640,688	\$ 24,788	\$ --	\$ 8,665,476
Depreciation	<u>4,787,455</u>	<u>223,084</u>	<u>--</u>	<u>5,010,539</u>
Depreciable Capital Assets, Net	<u>\$ 3,853,233</u>	<u>\$ (198,296)</u>	<u>\$ --</u>	<u>\$ 3,654,937</u>
Construction in Progress	\$ --	\$ 44,797	\$ 24,788	\$ 20,009
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 55,837</u>	<u>\$ 44,797</u>	<u>\$ 24,788</u>	<u>\$ 75,846</u>
	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
<u>Water Department</u>				
Plant and Equipment	\$ 8,597,703	\$ 42,985	\$ --	\$ 8,640,688
Depreciation	<u>4,560,352</u>	<u>227,103</u>	<u>--</u>	<u>4,787,455</u>
Depreciable Capital Assets, Net	<u>\$ 4,037,351</u>	<u>\$ (184,118)</u>	<u>\$ --</u>	<u>\$ 3,853,233</u>
Construction in Progress	\$ --	\$ 42,985	\$ 42,985	\$ --
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 55,837</u>	<u>\$ 42,985</u>	<u>\$ 42,985</u>	<u>\$ 55,837</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2010 and 2009 follows:

	Balance 2009	Additions	Reductions	Balance 2010
2007 Capital Loan Notes	\$ 7,800,000	\$ --	\$ 465,000	\$ 7,335,000
Less Current Portion	(465,000)	(485,000)	(465,000)	(485,000)
Long-Term Debt, Net	7,335,000	(485,000)	--	6,850,000
Consumer Deposits, Net	68,487	6,061	--	74,548
Reserve for Employee Retirement	97,000	17,000	--	114,000
Total Non-Current Liabilities	<u>\$ 7,500,487</u>	<u>\$(461,939)</u>	<u>\$ --</u>	<u>\$ 7,038,548</u>

	Balance 2008	Additions	Reductions	Balance 2009
1999 Revenue Bonds	\$ 660,000	\$ --	\$ 660,000	\$ --
2007 Capital Loan Notes	7,900,000	--	100,000	7,800,000
Less Current Portion	(760,000)	(465,000)	(760,000)	(465,000)
Long-Term Debt, Net	7,800,000	(465,000)	--	7,335,000
Consumer Deposits	65,962	2,525	--	68,487
Reserve for Employee Retirement	93,000	4,000	--	97,000
Total Non-Current Liabilities	<u>\$ 7,958,962</u>	<u>\$(458,475)</u>	<u>\$ --</u>	<u>\$ 7,500,487</u>

ATLANTIC MUNICIPAL UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

NOTE G - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

Series 1999 Revenue Bonds

The 1999 Series Revenue Bonds constituted a lien on the net income of the Electric Department. They were not general obligations of the City of Atlantic. The last of the bonds matured in 2009. The interest rate on the final bonds which matured during 2009 was 4.125%.

Series 2007 Capital Loan Notes

The 2007 Series Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The notes mature in increasing amounts ranging from \$465,000 in 2009 to \$760,000 in 2022. Interest rates range from 3.60% to 4.30%. The part of these notes maturing on and after April 1, 2016 are subject to early redemption on or after that date.

The annual debt service on the notes is expected to require less than 45% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$778,400 and \$1,721,000, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2007 electric capital loan notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending December 31, 2011 through 2015 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 485,000	\$ 284,011	\$ 769,011
2012	505,000	265,818	770,818
2013	525,000	246,631	771,631
2014	545,000	226,433	771,433
2015	570,000	205,105	775,105
2016-2020	3,215,000	660,886	3,875,886
2021-2022	<u>1,490,000</u>	<u>64,533</u>	<u>1,554,533</u>
	<u>\$ 7,335,000</u>	<u>\$ 1,953,417</u>	<u>\$ 9,288,417</u>

During the year ended December 31, 2010, approximately \$ - 0 - (\$98,000 in 2009) of interest cost was capitalized. Only a limited amount of debt proceeds were invested at any time during 2009 (none in 2010), therefore no earnings were offset against capitalized interest.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2010 and 2009 follows:

	Balance 2009	Additions	Reductions	Balance 2010
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>640,000</u>	<u>--</u>	<u>--</u>	<u>640,000</u>
	1,135,855	--	--	1,135,855
Less current portion	<u>205,000</u>	<u>--</u>	<u>--</u>	<u>205,000</u>
Long-term due to Electric Department	930,855	--	--	930,855
Consumer Deposits, Net	16,315	880	--	17,195
Reserve for Employees' Retirement	<u>43,000</u>	<u>6,000</u>	<u>--</u>	<u>49,000</u>
Total Non-Current Liabilities	<u>\$ 990,170</u>	<u>\$ 6,880</u>	<u>\$ --</u>	<u>\$ 997,050</u>
	Balance 2008	Additions	Reductions	Balance 2009
1998 Capital Loan Notes	\$ 840,000	\$ --	\$ 840,000	\$ --
Less Current Portion	<u>200,000</u>	<u>--</u>	<u>200,000</u>	<u>--</u>
Capital Loan Notes, Net	640,000	--	640,000	--
Due to Electric Department				
Non-interest bearing note	495,855	--	--	495,855
Interest bearing note	<u>--</u>	<u>640,000</u>	<u>--</u>	<u>640,000</u>
	495,855	640,000	--	1,135,855
Less current portion	<u>--</u>	<u>205,000</u>	<u>--</u>	<u>205,000</u>
Long-term due to Electric Department	495,855	435,000	--	930,855
Consumer Deposits	15,425	890	--	16,315
Reserve for Employees' Retirement	<u>37,000</u>	<u>6,000</u>	<u>--</u>	<u>43,000</u>
Total Non-Current Liabilities	<u>\$ 1,188,280</u>	<u>\$ 441,890</u>	<u>\$ 640,000</u>	<u>\$ 990,170</u>

ATLANTIC MUNICIPAL UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

NOTE H - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

The 1998 Series Refunding Capital Loan Notes constituted a lien on the net income of the Water Department. They were not general obligations of the City of Atlantic. The notes matured in increasing amounts ranging from \$200,000 in 2009 to \$215,000 in 2012. Interest rates ranged from 4.50% to 4.90%. The notes maturing on and after December 1, 2007 were subject to early redemption on or after that date and were redeemed by the Electric Department as of December 1, 2009.

The non-interest bearing note payable to the Electric Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2012. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

The interest bearing note payable to the Electric Department resulted when the Electric Department paid off the Capital Loan Notes. A new note was created at December 1, 2009 with the same maturity schedule and interest rates (ranging from 4.75% to 4.90%) as the Capital Loan Notes. The terms of the interest bearing note to Electric from the Water Department may be changed at the pleasure of the Utilities Board at any time. The Utilities Board deferred the payment of the principal for one year on the capital loan note. Principal and interest payments required on Water Department long-term debt during subsequent years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 205,000	\$ 30,833	\$ 235,833
2012	715,855	21,095	736,950
2013	<u>215,000</u>	<u>10,535</u>	<u>225,535</u>
	<u>\$ 1,135,855</u>	<u>\$ 62,463</u>	<u>\$ 1,198,318</u>

NOTE I - EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

Reserve For Employees' Retirement

Under rules adopted by the Board of Trustees, upon retirement, employees are eligible to receive payments based on accumulated but unused sick leave credits. Payments based on unused sick leave credits are also payable to a named beneficiary if a retiree dies before receiving all benefits earned.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE I - EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN -
Continued

Iowa Public Employees Retirement System

The Utilities contribute to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% (4.50% effective July 1, 2010) of their annual salary and the Utilities are required to contribute 6.65% (6.95% effective July 1, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2010, 2009, and 2008, were approximately \$125,300, \$115,500, and \$104,200, respectively, equal to the required contributions for each year.

NOTE J - DEFERRED COMPENSATION PLAN

The Utilities sponsor a deferred compensation plan which is administered by two trustees (the General Manager and Comptroller of the Utilities) and independent contractors under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Utilities are responsible for:

- a. The accounting, reconciliations and recordkeeping associated with employees' enrollment.
- b. Withholding employee contributions through payroll deductions.
- c. Timely transfer of withheld funds to the contractor designated by the participant, for investment.
- d. Payout of the deferred compensation to qualified participants after receiving proceeds from the administrators.
- e. Withholding payroll taxes from plan payouts.
- f. Preparation of 1099's resulting from plan payouts.

The Utilities' fiduciary responsibilities include due care in selecting administrators, and indemnification of the trustees.

The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The contractors are required to submit monthly reports on participants' accounts to the Utilities. The Utilities are liable to a participant only for mishandled employee contributions or payouts, and the related loss of income to the participants. The market values of the exclusive benefit plan assets at December 31, 2010 were approximately \$492,500.

ATLANTIC MUNICIPAL UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

NOTE K - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Walter Scott Energy Center No. 3 (WS #3) to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Atlantic is approximately 2.5% of the total costs. Periodically WS #3 shuts down production for several weeks for major maintenance and repairs. The last shutdown occurred during 2009 and the next is currently scheduled for 2015. During the alternate years when no shutdown occurs, the Electric Utility accrues an estimate of the pro rata annual expense it will incur related to this shutdown (\$50,000 total accrued at December 31, 2010 included in accounts payable). During the shutdown, the Electric Utility purchases replacement electricity on the open market.

Of the Electric Department's construction in progress, approximately \$1,622,000 represents the Utility's share of ongoing construction projects at WS #3. These projects have an estimated cost to complete of \$378,000. The Utility financed the costs of these projects through funds generated internally.

Approximately \$661,000 of the Electric Department construction in progress at December 31, 2010 consisted of several ongoing local projects. The largest of these was a sub-station circuit interruptor (\$430,000). The combined projects included commitments of approximately \$50,000 of future spending, to be paid for by internally generated funds.

The Water Department construction in progress of approximately \$20,000 included preliminary costs of an approximate \$500,000 water retention tank project. The project will be paid for by funds generated internally.

Transmission Lines

The Electric Utility has joined with other Municipal Utilities in Iowa to form the Iowa Public Power Agency (IPPA). IPPA is a 28E Agreement organization which was formed to enable small Municipal Utilities in Iowa to own a share of electric transmission lines. During 2009, the Electric Utility provided approximately \$170,000 of operating and equity funding (currently accounted for as a part of other assets) for an IPPA \$3.5 million share of a transmission line project, in partnership with MidAmerican Energy. The transmission line was put into service in early 2010. During 2010, the Electric Utility provided \$60,813 of operating funding to the project. That amount, along with \$3,046 of the original investment, was returned to the Utility. The transmission line investment shown on the balance sheet was reduced by the \$3,046 during 2010. It is expected that, each year, the Electric Utility will provide similar amounts of operating funding to the project, with net proceeds of the operation returned based on its pro rata share of the operation's net income.

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Energy Efficiency Program Commitments

Subsequent to December 31, 2010, the Electric Utility committed to a three part energy efficiency program. The total future cost is estimated to be \$690,000, which will be paid from funds generated internally.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utility anticipates that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Utilities offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Utilities employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: The Utilities currently finances the retiree portion of this plan on a pay-as-you-go basis. Currently the Utility has one retired employee under the plan. A review of the Utilities' current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

Subsequent Events

The Utilities has evaluated all subsequent events through February 22, 2011, the date the financial statements were available to be issued.

NOTE L - RECLASSIFICATION OF BALANCES

Certain items on the balance sheet as of December 31, 2009 have been reclassified to be comparable to the amounts reported for 2010. The reclassification had no effect on total net assets or the change in net assets for 2010.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments and net assets differently for financial statement and budget purposes.

	<u>Per Financial Statements</u>		<u>Budget</u>	<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Adjustments</u>	<u>Utilities</u>
Revenues	\$ 8,375,039	\$ 1,124,610	\$ 6,465	\$ 9,506,114
Expenses	<u>8,333,629</u>	<u>979,646</u>	<u>465,000</u>	<u>9,778,275</u>
Net	41,410	144,964	(458,535)	(272,161)
Balance beginning of year	22,406,884	3,631,518	(14,800,968)	11,237,434
Contributions	--	6,465	(6,465)	--
Transfers to the City	<u>(321,854)</u>	<u>(78,146)</u>	<u>--</u>	<u>(400,000)</u>
Balance end of year	<u>\$ 22,126,440</u>	<u>\$ 3,704,801</u>	<u>\$(15,265,968)</u>	<u>\$ 10,565,273</u>

	<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
	<u>Basis</u>	<u>Budget</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues	\$ 9,506,114	\$ 10,159,000	\$(652,886)
Expenses	<u>9,778,275</u>	<u>10,320,000</u>	<u>541,725</u>
Net	(272,161)	(161,000)	(111,161)
Balance beginning of year	11,237,434	11,237,434	--
Transfers to the City	<u>(400,000)</u>	<u>(427,000)</u>	<u>27,000</u>
Balance end of year	<u>\$ 10,565,273</u>	<u>\$ 10,649,434</u>	<u>\$(84,161)</u>

See Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Revenue Bonds/Notes
December 31,

<u>Due Date</u>	<u>Optional Call Date</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>
<u>2007 Series</u>				
April 1, 2010	--	3.60%	\$ --	\$ 465,000
April 1, 2011	--	3.65	485,000	485,000
April 1, 2012	--	3.70	505,000	505,000
April 1, 2013	--	3.75	525,000	525,000
April 1, 2014	--	3.80	545,000	545,000
April 1, 2015	--	3.85	570,000	570,000
April 1, 2016	--	3.90	590,000	590,000
April 1, 2017	April 1, 2016	3.95	615,000	615,000
April 1, 2018	April 1, 2016	4.05	640,000	640,000
April 1, 2019	April 1, 2016	4.15	670,000	670,000
April 1, 2020	April 1, 2016	4.20	700,000	700,000
April 1, 2021	April 1, 2016	4.25	730,000	730,000
April 1, 2022	April 1, 2016	4.30	760,000	760,000
			<u>\$ 7,335,000</u>	<u>\$ 7,800,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
Operating Revenue
Year ended December 31,

	<u>2010</u>	<u>2009</u>
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 2,008,513	\$ 1,777,493
Commercial	2,848,308	2,571,821
Rural resident and rural commercial	1,021,644	975,925
Interdepartmental sales	<u>28,181</u>	<u>25,701</u>
	<u>\$ 5,906,646</u>	<u>\$ 5,350,940</u>
Other Operating Revenue:		
Customer late payment charges	\$ 15,350	\$ 13,146
Service charges	11,198	8,310
Rent from electric properties	15,081	11,985
Net contract work	10,101	10,532
Transmission service	386,645	573,032
Internet wireless services, net	--	(1,946)
Scrap sales	7,982	4,400
Bad debts recovered	1,785	3,025
Miscellaneous	<u>389</u>	<u>3,015</u>
	<u>\$ 448,531</u>	<u>\$ 625,499</u>
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 6,360	\$ 5,250
Net contract work	2,453	3,280
Scrap sales	300	6
Bad debts recovered	<u>709</u>	<u>778</u>
	<u>\$ 9,822</u>	<u>\$ 9,314</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 75,803	\$ 63,107
Fuel	1,463,955	1,129,094
Operating supplies and expense	178,049	132,776
Maintenance of production plant	<u>360,958</u>	<u>249,395</u>
Total WS #3 production	2,078,765	1,574,372
Atlantic Production:		
Operating supervision and labor	17,803	17,054
Fuel	18,009	18,336
Operating supplies and expense	1,152	6,184
Maintenance of production plant	<u>98,640</u>	<u>111,118</u>
Total Atlantic production	<u>135,604</u>	<u>152,692</u>
Total electric production	2,214,369	1,727,064
Purchased Power	1,509,082	1,797,915
Transmission Expense:		
Maintenance of transmission line and other	934,384	731,271
Distribution Expense:		
City:		
Operating supervision and labor	108,739	109,450
Line and station supplies and expense	94,515	103,818
Meter expense	33,947	33,576
Miscellaneous distribution expense	84,300	84,060
Maintenance of structures and equipment	10,984	27,077
Maintenance of lines	151,497	132,938
Maintenance of line transformers	15,234	11,940
Maintenance of street lighting and signal systems	43,109	33,495
Maintenance of meters	<u>11,665</u>	<u>9,781</u>
Total city distribution expense	553,990	546,135
Rural:		
Operating supervision and labor	49,825	46,895
Line and station supplies and expense	1,000	8,812
Meter expense	--	224
Miscellaneous distribution expense	14,310	11,031
Maintenance of structures and equipment	29,002	13,915

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of lines	\$ 99,710	\$ 102,353
Maintenance of line transformers	6,572	17,759
Maintenance of meters	859	1,109
Total rural distribution expense	<u>201,278</u>	<u>202,098</u>
Total distribution expense	755,268	748,233
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	29,057	27,475
Accounting and collecting costs	113,909	109,859
Supplies and expense	1,352	1,925
Uncollectible accounts	12,102	9,006
Total customer accounting	<u>156,420</u>	<u>148,265</u>
Administrative and general:		
Administrative and general salaries	67,250	63,722
Office supplies and expense	28,539	30,079
Outside service employed	23,727	20,430
Property insurance	54,734	46,584
Liability insurance and safety program costs	70,069	72,552
Employees' pension and benefits	265,900	221,909
Franchise requirement	17,379	6,598
Regulatory commission expense	10,570	12,425
Internet	4,630	26,221
Energy efficiency grant/rebate program	67,560	95,079
Miscellaneous general expense	109,595	112,143
Maintenance of general plant	44,606	43,309
Payroll taxes	225,941	207,723
Property taxes	106,758	126,896
Total administrative and general	<u>1,097,258</u>	<u>1,085,670</u>
Administrative adjustments	50,039	52,462
Less administrative expense transferred	<u>(64,924)</u>	<u>(53,412)</u>
Net administrative and general	<u>1,082,373</u>	<u>1,084,720</u>
Total administrative and accounting expense	1,238,793	1,232,985
Provision for Depreciation	<u>1,366,370</u>	<u>1,161,183</u>
Total operating expenses	<u>\$ 8,018,266</u>	<u>\$ 7,398,651</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Source of Supply Expense:		
Operating supplies and expense	\$ 8,096	\$ 7,306
Maintenance of water source	<u>28,416</u>	<u>38,489</u>
Total source of supply expense	36,512	45,795
Pumping Expense:		
Operating labor	20,073	21,547
Fuel and power pumping	16,893	15,852
Maintenance of pumping station	<u>4,706</u>	<u>4,844</u>
Total pumping expense	41,672	42,243
Water Treatment Expense:		
Operating labor	36,539	57,864
Chemicals	49,305	43,227
Operating supplies and expense	14,818	14,780
Maintenance of water treatment plant	<u>15,271</u>	<u>5,604</u>
Total water treatment expense	115,933	121,475
Distribution Expense:		
Operating labor	139,660	133,413
Operating supplies and expense	9,932	10,130
Maintenance of distribution reservoirs and standpipes	7,391	6,560
Maintenance of mains	51,505	69,809
Maintenance of services	1,493	291
Maintenance of meters	--	3,371
Maintenance of hydrants	<u>5,121</u>	<u>4,207</u>
Total distribution expense	215,102	227,781
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	15,566	15,173
Accounting and collecting labor	48,816	46,632
Supplies and expense	7,627	9,766
Uncollectible accounts	<u>4,894</u>	<u>4,184</u>
Total customer accounting	76,903	75,755

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 37,728	\$ 38,178
Office supplies and other expense	14,581	15,460
Outside service employed	10,189	10,985
Property insurance	13,619	6,693
Liability insurance costs	22,205	24,220
Employees' pensions and benefits	71,956	83,794
Franchise requirement	6,766	7,665
Regulatory Commission expense	1,280	1,115
Miscellaneous general expense	25,362	27,025
Transportation expense	10,356	10,890
Maintenance of general plant	3,495	3,824
Payroll taxes	<u>38,125</u>	<u>41,303</u>
Total administrative and general	255,662	271,152
Administrative adjustments	(763)	3,324
Less administrative expense transferred	<u>(18,317)</u>	<u>(18,890)</u>
Net administrative and general	<u>236,582</u>	<u>255,586</u>
Total administrative and accounting expense	313,485	331,341
Provision for Depreciation	<u>223,084</u>	<u>227,103</u>
Total operating expenses	<u>\$ 945,788</u>	<u>\$ 995,738</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Operating Revenue:		
Sale of electricity	\$ 7,839,172	\$ 7,131,217
Other operating revenue	<u>448,531</u>	<u>625,499</u>
Total operating revenue	8,287,703	7,756,716
Operating Expenses (Not Including Depreciation)	<u>6,651,896</u>	<u>6,237,468</u>
Operating Income Before Depreciation	1,635,807	1,519,248
Provision for Depreciation	<u>1,366,370</u>	<u>1,161,183</u>
Income From Operations	269,437	358,065
Other Income and (Deductions), Net	<u>(228,027)</u>	<u>(66,284)</u>
Net Income	<u>\$ 41,410</u>	<u>\$ 291,781</u>
Net Income as a Percent of Total Operating Revenue	<u>.50%</u>	<u>3.76%</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 8,389,552	\$ 7,323,641	\$ 6,728,404
<u>372,904</u>	<u>66,512</u>	<u>78,210</u>
8,762,456	7,390,153	6,806,614
<u>5,636,885</u>	<u>5,053,799</u>	<u>5,014,533</u>
3,125,571	2,336,354	1,792,081
<u>1,143,023</u>	<u>1,059,460</u>	<u>1,041,292</u>
1,982,548	1,276,894	750,789
<u>72,671</u>	<u>73,642</u>	<u>145,813</u>
<u>\$ 2,055,219</u>	<u>\$ 1,350,536</u>	<u>\$ 896,602</u>
<u>23.45%</u>	<u>18.27%</u>	<u>13.17%</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Summaries of Electricity Distributed and Billed
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Sale of Electricity:		
Sales to consumers	\$ 6,245,879	\$ 5,663,105
Sales to other utilities	<u>1,593,293</u>	<u>1,468,112</u>
Total Electricity Sales	<u>\$ 7,839,172</u>	<u>\$ 7,131,217</u>
Kilowatt Hours:		
Generated	135,331,763	112,652,715
Purchased	42,567,000	54,701,242
Energy available	177,898,763	167,353,957
Station power/transmission loss	2,208,344	5,311,630
Available for sale	175,690,419	162,042,327
Sales and transfers to other utilities	62,960,863	55,485,400
Output to the system	112,729,556	106,556,927
Billed to consumers	108,085,496	102,042,813
Distribution loss	4,644,060	4,514,114
Distribution loss percent	4.1%	4.2%
Revenue Billed Per KWH to Consumers	5.78¢	5.55¢
Peak Hour Demand in KW	25,100	25,287
Services Provided to the City:		
Street Lighting:		
Energy	\$ 70,201	\$ 67,827
Operation and maintenance	43,740	33,709
Depreciation	<u>35,260</u>	<u>35,379</u>
	149,201	136,915
Energy for public buildings, parks and other uses	190,032	175,250
Other City projects	<u>--</u>	<u>--</u>
	<u>\$ 339,233</u>	<u>\$ 312,165</u>
<u>Consumer Classifications</u>		
Residential	3,254	3,260
Small Commercial	589	578
Large Commercial	36	39
Rural Residential	568	572
Rural Commercial	95	93
Area Lighting	289	291
City and Water Department	<u>90</u>	<u>89</u>
Total number of consumers	<u>4,921</u>	<u>4,922</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 5,798,285	\$ 5,338,066	\$ 5,167,209
<u>2,591,267</u>	<u>1,985,575</u>	<u>1,561,195</u>
<u>\$ 8,389,552</u>	<u>\$ 7,323,641</u>	<u>\$ 6,728,404</u>
132,336,100	132,205,200	108,976,400
39,237,310	38,310,816	45,926,151
171,573,410	170,516,016	154,902,551
6,046,276	4,646,224	4,414,598
165,527,134	165,869,792	150,487,953
54,568,516	54,644,192	44,177,753
110,958,618	111,225,600	106,310,200
106,895,456	105,012,973	101,302,223
4,063,162	6,212,627	5,007,977
3.7%	5.6%	4.7%
5.42¢	5.08¢	5.10¢
25,151	24,751	25,435
\$ 71,138	\$ 64,248	\$ 67,314
31,618	29,627	26,849
<u>35,650</u>	<u>35,356</u>	<u>35,036</u>
138,406	129,231	129,199
172,549	149,192	146,378
<u>--</u>	<u>--</u>	<u>19,670</u>
<u>\$ 310,955</u>	<u>\$ 278,423</u>	<u>\$ 295,247</u>
3,259	3,232	3,233
573	579	583
42	43	43
569	565	566
93	89	91
290	286	285
<u>89</u>	<u>90</u>	<u>89</u>
<u>4,915</u>	<u>4,884</u>	<u>4,890</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Operating Revenue:		
Sale of water	\$ 1,102,274	\$ 1,005,857
Other operating revenue	<u>9,822</u>	<u>9,314</u>
Total operating revenue	1,112,096	1,015,171
Operating Expenses (Not Including Depreciation)	<u>722,704</u>	<u>768,635</u>
Operating Income Before Depreciation	389,392	246,536
Provision for Depreciation	<u>223,084</u>	<u>227,103</u>
Income From Operations	166,308	19,433
Other Income (Deductions), Net	<u>(21,344)</u>	<u>(23,264)</u>
Net Income (Loss)	<u>\$ 144,964</u>	<u>\$ (3,831)</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>13.04%</u>	<u>(.38%)</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,006,594	\$ 1,033,196	\$ 972,150
<u>17,015</u>	<u>9,635</u>	<u>11,710</u>
1,023,609	1,042,831	983,860
<u>703,514</u>	<u>719,441</u>	<u>688,296</u>
320,095	323,390	295,564
<u>230,056</u>	<u>224,507</u>	<u>222,926</u>
90,039	98,883	72,638
<u>(25,227)</u>	<u>(19,548)</u>	<u>(36,812)</u>
<u>\$ 64,812</u>	<u>\$ 79,335</u>	<u>\$ 35,826</u>
<u>6.33%</u>	<u>7.61%</u>	<u>3.64%</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Summaries of Water Pumped and Billed
Year ended December 31,

	<u>2010</u>	<u>2009</u>
Total Revenue Billed	\$ <u>1,102,274</u>	\$ <u>1,005,857</u>
Gallorage:		
Pumped	290,927,000	299,088,000
Billed	237,000,400	242,703,075
Total system maintenance and loss	53,926,600	56,384,925
Accounted for losses*	28,042,899	16,029,963
Unaccounted for losses	25,883,701	40,354,962
Percent unaccounted for	8.90%	13.49%
Revenue Billed Per 100 Gallons	46.5¢	41.4¢
Number of Consumers	3,337	3,338
Peak Day - Gallons Pumped	1,380,000	1,530,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 12,473	\$ 11,852
Operation and maintenance	31,799	39,683
Depreciation	<u>40,640</u>	<u>40,563</u>
	<u>\$ 84,912</u>	<u>\$ 92,098</u>

* Includes water used in flushing mains, washing streets, fire department drills, fighting fires, and estimate of known main and customer service line breaks.

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>\$ 1,006,594</u>	<u>\$ 1,033,196</u>	<u>\$ 972,150</u>
285,970,000	324,065,000	329,229,000
251,514,300	266,308,200	267,999,725
34,455,700	57,756,800	61,229,275
16,186,860	30,608,938	22,201,896
18,268,840	27,147,862	39,027,379
6.39%	8.38%	11.85%
40.0¢	38.8¢	36.3¢
3,332	3,311	3,309
1,489,000	1,485,000	1,543,000
\$ 9,708	\$ 9,915	\$ 10,860
40,229	39,285	27,061
<u>40,421</u>	<u>38,686</u>	<u>35,541</u>
<u>\$ 90,358</u>	<u>\$ 87,886</u>	<u>\$ 73,462</u>

ATLANTIC MUNICIPAL UTILITIES
Net Income Available For Debt Service
Year ended December 31,

	<u>2010</u>	<u>2009</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 41,410	\$ 291,781
Add:		
Depreciation	1,366,370	1,161,183
Interest on revenue bonds	297,048	219,690
Gain (loss) on disposal of equipment	4,555	(3,576)
Amortization	<u>11,567</u>	<u>12,584</u>
Available For Debt Service	<u>\$ 1,720,950</u>	<u>\$ 1,681,662</u>
Maximum Debt Service in Any Year	<u>\$ 778,405</u>	<u>\$ 778,405</u>
Actual Coverage	<u>221%</u>	<u>216%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited the financial statements of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of and for the year ended December 31, 2010, and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Atlantic Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Atlantic Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Atlantic Municipal Utilities

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Atlantic Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Atlantic Municipal Utilities' response to findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' response, we did not audit the Utilities' response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Atlantic Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kyhnn + Co. P.C.

Atlantic, Iowa
February 22, 2011

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2010

PART I - INTERNAL CONTROL DEFICIENCIES

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities. However, this situation is common in small municipal utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. We have initiated a policy of board member approval for all investment transactions. We have also segregated cash receipts, posting, and deposit functions to the extent practicable in our size of entity.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

10-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2010 did not exceed amounts budgeted.

10-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

10-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

10-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

10-II-E Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

10-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2010

PART II - REQUIRED STATUTORY REPORTING (Continued)

10-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

10-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

10-II-I Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

* * *